M e m o r a n d u m

To:	Panel Members	Date:	March 27, 2003
From:	Creighton Chan, Manager Peter DeMauro, General Counsel	Analyst:	D. Woodside
Subject:	One-Step Agreement for **Sun Microsystems, Inc.** (www.sun.com)		

CONTRACTOR:

- Training Project Profile: Retraining: companies with out-of-state competition

- Legislative Priorities: Stimulating Exports/Imports

    Promotion of California's Manufacturing Workforce

    Moving to a High Performance Workplace

- Type of Industry: Manufacturing

- Repeat Contractor: Yes

- Contractor's Full Time Employees:

    Company Wide: 38,182

    In California: 13,116

- Fringe Benefits: Yes

- Union Representation: No

- Name and Local Number of Union
  representing workers to be Trained: N/A

CONTRACT:

- Program Costs: $5,651,100

- Substantial Contribution: $1,701,000

- Total ETP Funding: $3,950,100

- In-Kind Contribution: $91,110,820

- Reimbursement Method: Fixed-Fee

- Counties Served: Santa Clara, San Mateo, and Alameda

- Duration of Agreement: 24 months

SUBCONTRACTORS:

Arlene Plum Partners, Palo Alto, California, $25,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Avanti Publication Inc., El Sobrante, California, $134,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Barnes and Conti Associates, Mountain View, California, $36,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Bay Group International, Los Altos, California, $132,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Bay Technical Training Inc., Palo Alto, California, $45,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Bill Lewis dba Lambda Computer Science, Cupertino, California, $7,000 for the provision of classroom/laboratory instruction in a menu curriculum;

BMFO LLC, Menlo Park, California, $110,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Brannen Group, Redwood City, California, $44,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Definis Communications, Cupertino, California, $100,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Diane McIntyre dba Projects On Time, Pleasanton, California, $50,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Frazier Technologies Inc. Menlo Park, California, $63,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Frontline Mandel Communications Inc. Los Gatos, California, $100,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Global Genesis, Inc. Palo Alto, California $35,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Herrera & Company, Stockton, California, for an amount not to exceed $474,012 for project administration;

Management Development Systems LLC, Menlo Park, California, $70,000 for the provision of classroom/laboratory instruction in a menu curriculum;

MCAD INC., Mountain View California, $7,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Orbis Associates, Fremont, California, $89,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Pierce-McKenzie Associates Inc., Mountain View, California, $70,700 for the provision of classroom/laboratory instruction in a menu curriculum;

Power-Up Training & Consulting Inc. Redwood City, California, $170,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Searchlight Group, Mountain View, California, $24,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Skills for Success, Inc. Redwood City, California, $40,000 for the provision of classroom/laboratory instruction in a menu curriculum;

SNP Communications, Oakland, California, $190,000 for the provision of classroom/laboratory instruction in a menu curriculum;

Soft Edge Inc. Monument, California, $100,000 for the provision of classroom/laboratory instruction in a menu curriculum;

SUBCONTRACTORS: **(continued)**

Spreadsheet Systems Inc. Brisbane, California, $105,000 for the provision of classroom/laboratory instruction in a menu curriculum; and
Worklogix LLC Cupertino, California, $24,000 for the provision of classroom/laboratory instruction in a menu curriculum.

THIRD PARTY SERVICE:

Herrera & Company assisted with the completion of the ETP application and Agreement documents at no cost to Sun Microsystems.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
ET09-0804	Santa Clara and Newark	7/20/98-7/19/00	$4,644,835	$3,336,528	72%
ET00-0343	Santa Clara and Newark	6/30/00-6/29/02	$4,878,965	$4,257,075	87%

NARRATIVE:

Sun Microsystems, Inc. is eligible for standard ETP retraining under Title 22, California Code of Regulations, Section 4416(b) because it is a manufacturer.

The company representative reports the following:

Founded in 1982, Sun Microsystems (Sun) is a major producer of computer workstations, servers, networking system software, storage technologies and applications, and services for network computing environments. Sun's products and services are used in a range of applications in industries such as telecommunications, financial services, government, manufacturing, education, retail, life sciences, media, and healthcare. The company competes on a global basis resulting in 54% of its revenue for 2002 being derived from outside the United States. Sun Microsystems is headquartered in Palo Alto, California, and the majority of its manufacturing, research and development, and software design operations are centered in Silicon Valley. Sun Microsystems employs 13,116 Californians full-time. Employees located in Newark, Sunnyvale, Santa Clara, Mountain View, and Palo Alto facilities will receive the proposed training.

According to company representatives, since the second half of fiscal year 2001, adverse economic conditions have led to decreased demand for Sun's products and less revenue generated in 2002. Significant reductions in technology capital spending by customers in the telecommunications, financial services, and manufacturing industries, may result in continued decreases in revenues and earnings. For example, a number of telecommunication companies have recently filed for bankruptcy protection, and many companies have announced significant reductions and deferrals in capital spending.

NARRATIVE: (continued)

In response, Sun Microsystems must take a number of actions to remain competitive including: (1) invest heavily in research and development particularly in network software; (2) initiate business process improvements and new manufacturing technologies; and (3) implement a retraining program focusing on frontline workers. All of these actions must be implemented while reducing prices and waste if they are ultimately to result in increasing Sun's market share.

Sun Microsystems is requesting the Panel's assistance to retrain 6,300 administrative staff, buyers, technicians, assemblers, engineers, production supervisors, planners, and programmers in Continuous Improvement, Manufacturing, Computer, and Business Skills.

Continuous Improvement training will provide workers with skills to simplify lengthy, complicated processes that are inefficient and result in lost business. The main goal will be to implement a quality methodology called "Sun Sigma," a customization of the Six Sigma quality process. Six Sigma is a widely recognized, data-driven system used to foster decision-making and corrective action across an organization. Six Sigma improves quality by reducing degrees of variance in any process, from manufacturing to transactional, or from product to service. Continuous Improvement training will provide a common language and a consistent methodology for employees to meet these new customer requirements.

Manufacturing Skills training is driven by the company's adaptation of new technology and its increasingly sophisticated products and services. During Sun's previous ETP Agreements, much of the testing and configuration of the company's products were performed at the customer site. To eliminate waste and to proactively discover errors, Sun has created the Configuration Center Project (CC Project). The goal is to deliver "Customer Ready Systems" placing the burden of building, configuring, and testing equipment on Sun rather than on its customers. Sun's employees must now learn multiple manufacturing disciplines including lean manufacturing, process management, test and configuration protocol, and customer consultation techniques.

Computer Skills training includes the study of various programming languages, knowledge of networking maintenance and computer operations, and advanced desktop and web-based applications. All trainees who interact with the customer must learn to use the new automated and Sun Sigma-linked tools for their respective assignments, from designing products to parts and order management to analysis, report preparation, and financial and procurement transactions.

Business Skills training will provide engineers, production supervisors, and technicians new skills to effectively respond to customer demands. Courses include communication and presentation techniques, project management, and other core skills to increase productivity in a dynamic work environment. All Business Skills delivered under this proposal are intended to support and complement Sun Sigma and Manufacturing Skills training. Training will also include problem solving, managing change, production-level decision-making, leadership, and advanced team skills.

Training will consist of classroom/laboratory training and computer-based training (CBT), and each trainee will receive between 10 to 200 hours of classroom/laboratory and 0 to 30 hours of CBT training. Instruction will be provided by a combination of internal trainers and California-based vendors.

NARRATIVE: (continued)

Supplemental Nature of Training

Sun Microsystems certifies in writing, that the proposed training does not displace existing company provided training and is supplemental and directly aligned with meeting its latest strategic business initiatives. The following on-going training has been and will continue to be provided by Sun separate and apart from the proposed ETP-funded training:

- General computer skills in Star Office including word processing, spreadsheets, and operating systems;
- Sun new manager leadership skills training;
- Sun company orientations including "Surviving at Sun;"
- Workplace literacy including all English as a Second Language and basic writing and communication skills;
- Structured, on-site training in lean manufacturing skills and system configuration techniques;
- Executive development in all training types;
- General industry safety training;
- Labor laws, legal issues and general human resources practices at Sun;
- Sexual harassment, stress management, violence in the workplace; and
- Developing Sun company and/or departmental mission and values.

The center of this training proposal is different from the previous ETP contract in that employees will be taught new and advanced continuous improvement, manufacturing, computer, and business skills.

In-Kind Contribution

Sun Microsystems total in-kind contribution will be $91,110,820.   This amount reflects total employer costs of $95,060,920 less the ETP Agreement amount of $3,950,100.   The total costs include the following: $13,410,117 in wages to be paid to employees while attending ETP-funded training; $13,105,743 in additional direct training costs including in-house and external trainers, training materials, and leased classroom facilities dedicated solely to the ETP training and which are in excess of ETP funding; and $68,545,060 in lost production costs while ETP trainees attend training since replacement workers will not be utilized.

COMMENTS:

All trainees in this project meet the Panel definition of frontline worker under Title 22 California Code of Regulations, Section 4400(ee). Sun Microsystems, Inc. has certified in writing that no senior policy executives will be enrolled in any ETP-funded training.

Substantial Contribution

If approved, this would be Sun Microsystem's third training program funded by ETP within the previous five years. Title 22, California Code of Regulations, Section 4410 (a) states in part that "A substantial contribution of not less than 30 percent of the total Panel training and administrative costs, exclusive of in-kind contributions and/or any other special contributions required by the Panel, shall be imposed on any employer for retraining at a facility which previously benefited, directly or indirectly, from Panel funding under at least two prior Panel agreements at the same facility in the amount of $250,000 or more." Two facilities participating under this proposal have benefited from more than $250,000 in ETP

COMMENTS: (continued)

Substantial Contribution   *(continued)*

funds over the past two Agreements. These two facilities house approximately 60 percent of the trainees proposed for retraining under this new Agreement.   There are several other facilities that have not benefited in excess of this amount, but the company has agreed to pay the substantial contribution for all trainees to demonstrate its readiness to partner with the ETP and show its commitment to employee training programs. The company is thus funding $680,400 in substantial contribution over the required amount.

PROPOSED ACTION:

Staff recommends that the Panel approve this One-Step Agreement if funding is available and the project meets Panel priorities.   This recommendation is based on the company's continued commitment to retraining its California workforce even during an economic downturn. In addition, this training program will assist the company to maintain its competitiveness in the global marketplace.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Job Number 1 Retrainees	Menu: Business; Continuous Improvement; Manufacturing; and Computer Skills	6,300	10-200	0-30	0	$627	$13.87-$55.98

	Range of Hourly Wages	
	$13.87-$55.98	
	Prevalent Hourly Wage	
	$31.77	
	Average Cost per Trainee	
	$627	

Health Benefit used to meet ETP minimum wage:	Turnover Rate	% of Mgrs & Supervisors to be trained:
Although the company pays health benefits for its employees, the hourly contribution is not being used to meet ETP minimum wage requirements.	9%	0%

Hours		
Class/Lab	**CBT**	**SUBJECT:**
10 – 200	0 - 30	

Computer Skills: These courses provide supplemental training in networking maintenance automation, advanced desktop productivity, and eBusiness applications

XML – Extensible Markup Language
Essbase Financial Reporting
Oracle Finance Applications
Unix Systems Engineering
Java Analysis and Design
Customer Relationship Management Software
Java Application Programming
Enterprise Java Programming
Supply Chain Management Application
Web Component Development with Java Technology
Distributed Programming with Java Technology
Java Server Pages for Web Developers
Network Automation Tools and Techniques
Jiro Technology Bundle
Internet Markup Language
Advanced Desktop Applications Software
Object Oriented Programming with Java Technology Bundle
Database Development
Enterprise Resources Planning Software
Advanced Unix Shell Programming
Network Administration Software Configuration

Continuous Improvement: These courses provide supplemental training in advanced Sun Sigma tools and techniques:

Advanced Process Mapping and Measurement Training
Sun Shot for Sun Shot Leaders
Advanced Product Development Process Schema Development
Sun Sigma Advanced DMAIC – Define, Measure, Analyze, Improve and Control
Zero Product Defects Tools and Techniques
Designing for Reliability, Quality and Improved Broadband
Sun Sigma for Team Leaders
Advanced Systems Integration Improvement Training
Sun Shot Tools and Techniques
Sun PLC (Product Life Cycle) Core Team Training
Integrated Manufacturing Systems – Through Innovation
Advanced Process Improvement Training
Sun Shot Goals and Objectives
Quality Customer Skills
Process Management Tools and Techniques
Sun Shot Tracking and Reporting Protocol
Kernel Core Dump Analysis Quality Techniques

Hours		SUBJECT:
Class/Lab	**CBT**	
10 – 200	**0 - 30**	

Manufacturing Skills: These courses provide supplemental training in advanced manufacturing, assembly, configuration, and testing skills
Advanced Verilog Synthesis & Verification Training
Sun ASIC (Application Specific Integrated Circuit) Design Flow
Starfire Sizing and Configuration
Sun Enterprise Workgroup Server Maintenance
Sun Storage Systems Maintenance
Solaris 2.X Essentials for Systems Maintenance
Configuring and Managing Network Applications
Configuring Network Interface Layers
Lean Manufacturing Philosophy, Applications, Tools and Techniques
Configuring with Linux Networks
Enterprise Development with Sun One Applications
Jini Technology Bundle
Network Management and Troubleshooting
Network Configuration Management
Advanced Installation Procedures
Server Administration and Network Configuration
Sun Cluster Administration
Sun Hardware RAI Storage Systems Administration
Sun Management, Configuration, and Testing Center Technology
Business Skills: These courses provide supplemental skills-based training to front-line workers to advance and complement training in continuous improvement (Sun Sigma) and manufacturing skills trainings
Advanced Customer Communications and Awareness
Sun Enterprise Systems Planning
Customer Finance and Buying Decision Modeling
Enterprise Selling Process
Advanced Product Knowledge
Sun One Discussions of Business Architectures
Advanced Customer Consultative Communication Skills
Linking Technology Solutions to Business Issues
Team Leadership in a Complex Environment
Advanced Multi-Pass Grey Development Discussion
Technical Schema Presentation Skills
Advanced Program Leadership
Product Marketing for Engineers
Advanced Original Equipment Manufacturer Sales Techniques
Enterprise Network Value and Pricing Techniques
Advanced Computer Based Decision Models
Advanced Project and Program Leadership
Technical Team Development and Leadership
Leading for Technology Innovation